# PURA PROVIDES CLARITY, COST REDUCTIONS IN LATEST GAS EXPANSION PROGRAM RULING

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Since 2013, the State's Comprehensive Energy Strategy and associated legislation have called for the State to incentivize the conversion from the use of oil to natural gas for space heating and commercial and industrial processes. The Public Utilities Regulatory Authority (PURA) has been responsible for developing the details for what is referred to as the "gas expansion program" or "gas expansion plan," and has done so through several proceedings involving the gas companies (Connecticut Natural Gas (CNG), Southern Connecticut Gas (SCG), and Yankee Gas) as well as the Department of Energy and Environmental Protection (DEEP), the Office of Consumer Counsel (OCC), and other interested stakeholders. CNG and SCG are related companies, co-owned by Avangrid.

Overall, the program has been successful in driving conversions from oil to natural gas that make economic sense, including by providing the regulatory clarity and cost recovery opportunities necessary for the gas companies to build new gas infrastructure. The gas expansion program has led to the installation of new gas mains in Bolton, Bosrah, Coventry, Deep River, East Hampton and Essex, none of whose residents had natural gas access before the program started, as well as the expansion of the existing natural gas footprint in several towns. In terms of the original conversion goals, the program is beginning to fall short because the effective difference between oil and gas prices has narrowed considerably since 2013, when the program was designed. There are still projects that make economic sense, but not as many as had been anticipated and customer conversion demand has slowed.

The most recent proceeding, Docket No. 16-04-10, *Review of the 2014 and 2015 System Expansion Reconciliation Mechanisms Filed by: Connecticut Natural Gas Corporation, The Southern Connecticut Gas Company and Yankee Gas Services Company,* was the first opportunity to reconcile the revenue and expenses of the gas expansion program. The gas expansion program creates new expenses for the gas companies, including capital expenditures, operations and maintenance costs, taxes, and interest expense. On the other hand, the program also creates revenues from new customers who would not have been added absent the program, including the fact that such new customers pay a 10% to 30% premium on their distribution expenses in their bill to partially defray system expansion costs. The net amount, new costs less new revenues, is billed to all customers through what is called the

system expansion reconciliation mechanism on the gas bill. The mechanism can actually result in a credit rather than a charge if new revenues exceed new expenses.

In PURA's November 30, 2016 Decision, it released the results of its comprehensive review of the gas companies' filings and the positions of the parties, including OCC. Overall, PURA reduced CNG's cost recovery request by $333,936, SCG's cost recovery request by $371,683, and Yankee Gas's cost recovery request by $116,154, such that PURA's adjustments reduce the aggregate customer burden by about $800,000. With these adjustments, CNG's net reconciliation mechanism figure is a credit in the amount of $14,526. For SCG, the reconciliation mechanism will lead to customer charges of $3,222,666, and for Yankee Gas, there will be customer charges of $3,651,805. It is possible that after a few more years, the costs of the program will be reduced in comparison to revenue, such that the net reconciliation at SCG and Yankee will be lower or even a credit, as it is already at CNG.

OCC had advocated in particular for the reduction of claimed cost recovery by CNG and SCG, which advocacy PURA cited in developing some of its adjustments. The CNG/SCG adjustments ordered by PURA were mostly in the areas of operations and maintenance expense and overhead expenses that CNG/SCG sought to allocate to the gas expansion program from general expenses. Questions arose in the proceeding about whether some of the claimed allocations were truly incremental and caused by the expansion program, and also regarding the interpretation of directions for allocation of expenses provided by PURA in prior proceedings. OCC argued for the bedrock principle that any cost of a gas company should only be recovered once, so any costs incurred by CNG and SCG that were already recovered through their regular rates should not be recovered a second time in this allocation proceeding. PURA agreed and disallowed allocation of costs that were not demonstrated to be incremental.

In addition to the net cost issues discussed above, several other knotty regulatory issues were discussed in the proceeding and dealt with in PURA's November 30 decision. One such issue is how to treat and account for expenses for projects by a gas company that are partly performed to facilitate new customer growth (and should therefore be treated as system expansion costs) and partly to ensure reliability for the existing customer base. In some circumstances, the system expansion component of a project could not proceed without local reinforcement of a system, which also benefits existing customers. To deal with this issue, PURA set up a cost allocation mechanism which will divide up the costs of such a "blended" project between new and existing customers based on proportional gas usage.

A second difficult issue that arose in the proceeding is that for each of the companies, there are a relatively small number of customers who have been determined to be on the incorrect rates. As discussed above, the gas expansion program design calls for new system expansion customers to pay a premium distribution rate called a system expansion or "SE" rate, which is 10% to 30% above ordinary distribution rates, in order to defray part of the cost of system expansion. To create a clear line and avoid violating promises to customers, PURA set up what is known as a grandfathering clause in the original gas expansion proceeding. Under

this clause, customers who signed contracts prior to January 1, 2014 (the formal beginning date of the gas expansion program) are supposed to be on "existing rates" (that is, without paying the premium), while customers who sign a contract after January 1, 2014 are supposed to be on SE rates, which include the premium. Notwithstanding the clarity of this standard, it was determined that for each of the gas companies, there are a small number of customers who are on the wrong rate, in both directions. This means that some customers who should be on a lower-priced existing rate have instead been paying the premium SE rate, while other customers who should have been put on the SE rate have only been paying the existing rate. In other words, some customers have been under-charged, and some over-charged, due to erroneous rate placement.

For customers who have been overcharged by being placed on the SE rate incorrectly, the Decision properly calls for a full refund from the date of the error, plus placement on the correct (lower) rate going forward. As to customers who were placed on the lower-cost existing rate but should have been on the premium SE rate all along, PURA did not allow the gas companies to back-bill the customers for the difference to date, since the under-charge was a company error. However, PURA did require that such customers be placed on the premium SE rate going forward. OCC had expressed some concern during the proceeding that it may be inappropriate in at least some circumstances to switch customers to the correct but higher rate, depending on what promises or assurances were made to the customer during the contracting process. However, PURA held firm on this issue of redirecting customers to the correct rates going forward.

Finally, during the proceeding, it became clear that there are some discrepancies among the gas companies regarding whether a customer will be treated as an expansion customer versus an existing customer. For example, it is plain to all that if a premise was heating with natural gas prior to the natural gas expansion plan, and if the occupant moved out and a new occupant moved in during the immediately following month, this should be treated for purposes of the system expansion program as an existing customer, not a new, system expansion customer. Beyond that simple example, numerous nuances can arise in both a residential and commercial context, in terms of timing of restored use, abandoned premises, proposed expanded usage, whether a new meter is required, and whether any new piping or other infrastructure is required. It became clear during the proceeding that it would best for each company to be sure they are applying consistent standards to these issues within each company, and to attempt, to the extent possible, that all three companies use similar standards for determining when a customer should be considered a system expansion customer on the higher SE rate and when a customer should be considered an existing customer (or technically, a customer at an existing premise) and put on the pre-existing rate. As recommended by OCC and DEEP, PURA will establish a technical meeting to bring clarity and uniformity to these designations.

OCC is generally pleased with PURA's November 30, 2016 Decision and, on behalf of customers, appreciates the considerable effort that went into it.

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